

**SOUTH CAROLINA STATE OPTIONAL RETIREMENT PLAN
(STATE ORP)
INVESTMENT POLICY
401(a) Defined Contribution Plan**

October 10, 2003

INTRODUCTION

The South Carolina State Optional Retirement Plan (State ORP) is a defined contribution plan qualified under Section 401(a) of the Internal Revenue Code. The South Carolina Retirement Systems has developed the following investment policy for the SC State ORP (Optional Retirement Plan). This policy includes objectives and guidelines for the selection, ongoing evaluation, and deletion of the investment products offered to State ORP Plan participants. This policy shall remain in effect until amended.

This statement of Investment Policy serves the following purposes:

- Provides a written document of the expectations regarding the fund performance.
- Establishes objectives and guidelines, which are consistent with prudent investment management and Plan participants' needs for the several asset classes as defined below.
- Outlines criteria and procedures for the ongoing evaluation of the investment products and managers.
- Establishes an overall strategy framework for the investment products offered.

This policy statement is intended to be dynamic. It shall be reviewed at least annually and amended as necessary to reflect current investment goals. Prior to the SC Retirement System's authorization of any new fund to be offered by an investment provider, the investment provider's proposed fund will be evaluated based on the criteria in this policy.

I. SELECTION GUIDELINES

The Investment Providers may offer State ORP participants investment products in each of the following major asset classes. It is not necessary that providers offer a product or products in each category; however, no single provider may offer more than sixteen investment products.

- Fixed Income (no more than one fund for each asset class)
 - Guaranteed Annuity or Stable Value Fund (no more than one fund in total)
 - Money Market Fund
 - Core Bond Fund
 - Inflation-linked Fixed Income
- Equity Funds (no more than one fund for each asset class)
 - Active Large Cap Blend/Core
 - Index Large Cap Blend/Core
 - Active Large Cap Value
 - Active Large Cap Growth
 - Active Mid Cap Blend/Core
 - Active Small Cap Blend/Core
 - Active Foreign Stock Fund

- Lifestyle Funds and Domestic Hybrid Funds (no more than three Lifestyle Funds and no more than one Domestic Hybrid Fund, for a total not to exceed four fund offerings. Multiple Domestic Hybrid Funds may not be substituted for a series of Lifestyle Fund offerings. In the event that a provider's particular series of lifestyle funds contains more than three offerings, the State ORP may at its discretion waive the three fund maximum requirement.)
- Real Estate Fund (not more than one fund, which may hold direct property investments and/or REITs).

Completeness Fund Offerings

At the inception date of this Investment Policy Statement, each State ORP provider has an existing menu of offerings. To the extent that these current offerings do not fit the specified menu categories contemplated in the Policy, a provider may utilize up to but not more than two of its current State ORP product offerings as completeness funds. These completeness funds will be permitted in order that the provider may continue to offer an array of investment options to participants. There is no requirement as to the minimum number of funds offered; however, each provider will be restricted to a maximum of sixteen funds. Should the provider elect to utilize concentrated or sector funds to fill these vacancies the provider will be responsible for notifying participants, in writing and at the provider's expense, of the additional risks inherent in these types of less-diversified investment vehicles. These completeness funds must be presented to and approved by the State ORP and/or its investment consultant.

Default Fund Offering

In the event that a plan participant fails to designate an investment vehicle during the enrollment process, the member's contributions must be invested in an approved default fund. The fund should be a conservative investment product that is stable, has low risk and no withdrawal penalties. Providers must request and obtain approval of the proposed default fund from the State ORP.

Funds will continue to be directed to and remain in this designated vehicle until such time as the participant selects other investment option(s). It is the provider's responsibility to communicate this with participants, and to continue to encourage these participants to actively select investment options for funds contributed to the State ORP.

Limit on Fund Offerings

1. All funds offered must be no load funds.
2. All funds offered must be diversified. Funds that invest in fewer than thirty-five securities will not be permitted. Certain offerings, such as lifestyle funds, may hold a diversified group of mutual funds, rather than individual securities. In this event, the underlying funds in these "fund of funds" vehicles should meet these diversification requirements. In addition, this requirement does not apply to Inflation-linked Fixed Income Security funds, provided they are diversified across at least ten (10) individual security holdings.

3. Sector funds (Specialized Funds), or funds that concentrate more than 50% of their holdings in a single sector or more than 65% in two sectors of one of the major industry classifications (sector examples include, but are not limited to, finance, healthcare, or telecommunications), may be used only as “Completeness Fund Offerings” as contemplated on the preceding page. Apart from this application, Sector Funds will not be permitted.
4. Bond funds must be considered to be “Core” or “Core Plus” offerings. Junk Bond funds or funds that hold or permit significant junk bond investments will not be permitted. The average credit rating for bond funds must be A or higher as assigned by Standard & Poor’s or Moody’s.
5. A Real Estate fund may be approved for inclusion in the fund offerings but only if it meets the following additional requirements:
 - It is considered to be a “core” investment strategy (i.e., not “opportunistic” or “value-added”) and its investment objectives are generally to seek favorable long-term returns from income and appreciation from private and/or public (REIT) real estate investments.
 - It is an open-end, commingled vehicle that provides adequate liquidity provisions to its participants to facilitate transfers and/or withdrawals.
 - Its holdings are well diversified both by property type and geography.
 - Its use of leverage does not exceed 30% of the net asset value of the account.
 - It has at minimum five years of performance history.

Selection Requirements for Guaranteed Annuities and Stable Value Funds

Guaranteed Annuity and/or Stable Value Funds may be offered. General investment objectives for these funds include, but are not limited to, the following:

- Preservation of principal and income;
- Maintenance of adequate liquidity for transfers and withdrawals; and
- Achievement of credited rates that
 - are competitive with other fixed income investments with similar risks, and/or
 - move generally in the direction of prevailing interest rates.

These funds may invest in, but are not limited to, bank short-term investment funds, cash or cash equivalent securities, U.S. government or agency securities, corporate bonds, or other fixed income securities. They may also invest in investment contracts such as Guaranteed Investment Contracts “GICs” or Synthetic GICs.

Traditional GICs

Traditional GICs are issued and backed by insurance companies and/or banks but are not guaranteed against failure of the issuer. In these investments, the assets become part of the general account of the issuer. General account products may be offered for consideration in the State ORP, subject to the following criteria:

- The issuer must have
 - and maintain an A.M. Best rating of A or better, and/or a Moody’s rating of A1 or better or its equivalent as determined by another nationally recognized statistical rating agency.

- a minimum history of five years with this type of product offering.
- The rates paid should offer a competitive spread over U.S. Treasury securities with comparable maturity or duration to the term of the GIC.

Synthetic GICs

In the case of Synthetic GICs, the stability of value of the fund is maintained through the use of an insurance wrapper provided by highly rated insurance companies or banks. In these types of vehicles, the commingled fund (or plan sponsor in the case of a separate account) retains title to the underlying assets. While these investment contracts are not guaranteed against failure of the insurance companies or banks, the State ORP's current selection criteria requires each of the insurance providers to have the following:

- an A.M. Best rating of A+ or better, and/or
- a Moody's rating of A2 or better or its equivalent as determined by another nationally recognized statistical rating agency
- The firm should have a minimum history of five years with this type of product offering.

For the underlying investments of a Synthetic GIC, the following portfolio characteristics will apply:

- The minimum average credit quality should be A or better by Moody's, S&P or other nationally recognized statistical rating agency at time of purchase. Units of commingled funds must be consistent with this rating.
- Securities of any one issuer are limited to 5% of the market value, with the exception of U.S. Treasury and Agency securities, and non-dollar denominated securities may not represent more than 5% of the fund and may be used in commingled funds only.
- The portfolio will normally be managed with a weighted average duration at or below that of a broad fixed income market index, such as the Lehman Brothers Aggregate Index. Short-term investments must be included in the calculation of the portfolio's duration.
- Over a market cycle, generally thought to be periods of 3 to 5 years, it is expected that these products will earn a return or yield comparable to that generated by the Lehman Intermediate Government/Credit Index and/or the Lehman Aggregate Index, but with significantly less return volatility than that of the respective index.

Diversified GIC/Stable Value Funds

Providers may offer diversified GIC or Stable Value funds for consideration. In addition to the previously outlined criteria for Traditional and Synthetic GICs, the State ORP requires that diversified GIC funds offered by providers meet the following criteria:

- Each of the insurance companies or banks issuing a GIC in the fund should have and maintain an A.M. Best rating of A or better, and/or a Moody's rating of A1 or better or its equivalent as determined by another nationally recognized statistical rating agency
- At least 50% of the GICs in a diversified GIC fund should be from issuers with an A.M. Best rating of A+ or better, and/or a Moody's rating of AA or better or its equivalent as determined by another nationally recognized statistical rating agency
- Exposure to any one individual GIC should be less than 10% of the value of the fund.

- Exposure to any one individual Synthetic GIC should be less than 25% of the value of the fund.
- Over a market cycle, generally thought to be periods of 3 to 5 years, it is expected that these products will earn a return or yield comparable to that generated by the Lehman Intermediate Government/Credit Index and/or the Lehman Aggregate Index, but with significantly less return volatility than that of the respective index.
- The firm should have a minimum history of five years with this type of product offering.

Selection Requirements for Equity and Bond funds:

1. Initial selection of a fund will require that the fund shall be ranked in at least the top 40% of its peer group (as determined by Morningstar and/or the State ORP's investment consultant) over at least two of the most recent 1, 3 and 5 year periods, ending with the most recently completed calendar quarter. This test may be waived in the case of Money Market Funds, as they are not covered by Morningstar, and may also be waived for some Lifestyle funds as their specific goals and objectives may vary significantly across offerings, making universe comparisons less meaningful and in some instances inappropriate.
2. Funds selected shall have outperformed their respective benchmarks, net of fees, over at least two of the most recent 1, 3 and 5-year periods, ending with the most recently reported calendar quarter. It is anticipated that the following performance benchmarks will be applied to fund offerings in each category. In the event that a provider believes that a different benchmark or combination of benchmarks is more appropriate for a particular fund offering, it will provide an analysis of and recommendation for a more suitable benchmark to the State ORP and its consultant for consideration. Appropriate benchmarks will be determined by Morningstar and/or the State ORP's investment consultant.

Fund Category	Benchmark
Money Market Fund	91-day Treasury Bill
Bond Fund	Lehman Aggregate
Inflation-linked Bond Fund	Salomon Bros. US Inflation-linked Securities Index
Index Large Cap Blend Core	S&P 500
Large Cap Blend/Core	S&P 500/Russell 1000
Large Cap Value	Russell 1000 Value
Large Cap Growth	Russell 1000 Growth
Mid Cap Blend/Core	Russell Mid Cap
Small Cap Blend/Core	Russell 2000
Foreign Stock	MSCI EAFE
Real Estate Fund	Strategy-specific /To be determined
Lifestyle/Domestic Hybrid Funds	Strategy-specific/To be determined

3. Funds selected shall have been managed by the same person(s) or substantially the same group for at least the last three years.
4. Except for Index Funds, Small Cap Funds, and Inflation-linked Bond Funds, a minimum of five years of operation and history are required to be considered for selection. Funds in these categories

must have at least three years of operation and history. An institutional fund that has not acquired five years of operations can be assigned the years of operation and history of its retail copy, provided the fund has the same management and investment objectives.

5. Funds with front and/or back end load fees or contingent deferred sales charges or any other surrender charges that are paid by the participants will not be permitted. An exception to this requirement is permitted for the incumbent TIAA-CREF Traditional Annuity, which has a 2 1/2 percent disintermediation fee because it uses a longer duration offering significantly higher returns than most Stable Value and Guaranteed Annuity products. Funds with 12b-1 fees that exceed 25 basis points are considered to be funds with a load and are not permitted (see following section on 12b-1 fees).
6. In certain instances, providers may offer load funds under a “load-waived” arrangement with the mutual fund provider. In these instances, the standard fund load is waived and the participants do not incur this charge for investing in the fund. Providers are responsible for notifying the State ORP and its consultant of these arrangements, and ensuring that the load fee is not borne in any manner by the State ORP or plan participants.

Morningstar ratings take load charges into consideration in its evaluation, which may have a negative impact on the rating of a particular “load-waived” State ORP fund. In these cases providers will be responsible for notifying the State ORP and its consultant of the situation, and the State ORP and its consultant will take this information into consideration when evaluating the performance of these offerings.

7. The Information Ratio of fund offerings must meet or rank in at least the top 40% of Information Ratios in the Morningstar universe of retail funds in the same asset class and investment style over at least two of the most recent 1, 3 and 5 year periods, ending with the most recently completed calendar quarter. This test may be waived in the case of Money Market Funds, as they are not covered by Morningstar, and may also be waived for some Lifestyle funds as their specific goals and objectives may vary significantly across offerings, making universe comparisons less meaningful and in some instances inappropriate. Appropriate benchmarks will be determined by Morningstar and/or the State ORP’s investment consultant.
8. For domestic equity index funds, the fund return must match its benchmark within a range of plus or minus 0.5 % over the 1, 3 and 5 year periods ending with the most recently completed calendar quarter. For bond index funds the acceptable range will be plus or minus 0.75%. Inflation-linked Bond Funds that are managed in a passive or “buy and hold” strategy will be considered index funds for selection analysis purposes. In addition, given the relatively recent development of inflation-linked securities and their use as an investment strategy, the State ORP and/or its investment consultant may at their discretion waive the longer-term performance requirements of these vehicles.
9. Funds offered must have an equivalent Morningstar Star Rating of four Stars (above average) or five Stars (highest rating). The State ORP and/or its consultant may at their discretion waive this requirement when considering a series of Lifestyle funds, provided that no fund in the series is rated less than three Stars. Money Market Funds are not covered by Morningstar and are exempt from

this requirement. An institutional fund without a Morningstar rating can be assigned the Morningstar rating of its retail copy. Providers are responsible for notifying the State ORP and its consultant of this distinction when offering institutional funds. In the event that an assignment of a retail-copy Morningstar rating is inappropriate, the provider will provide State ORP staff and its consultant an analysis of the fund-specific situation for consideration.

10. The Funds will be benefit responsive at market value for permitted Plan benefit payouts, including investment transfers to allowed Plan investment. In other words, distributions are to be paid at market value without delay. However, some distributions from the Guaranteed Annuities, Stable Value and/or Real Estate Funds may be delayed as described in the fund prospectus. Also, the TIAA-CREF Traditional Annuity has a 2 1/2% disintermediation charge - See item five above).
11. The investment expenses for any bond or equity fund must not exceed the total in the following table. This expense includes all investment expenses such as the investment management expense ratio, 12-b-1 fees, mortality charges, administrative charges or any other charge against the investment account of the participant.

Asset Class	Maximum Expense Rate (includes all expenses)
Bond Funds	1.00%
Large Cap, Mid Cap and Lifestyle or Domestic Hybrid	1.60%
Small Cap	2.00%
Foreign Stock	1.75%
Index	.90%

12b-1 Fees (Mutual Fund Promotion, Sales and Marketing Expenses)

The purpose of 12b-1 fees is to pay for the promotion, marketing and sales expenses of a fund. Participants in the State ORP are restricted to investing in funds that have met the requirements of this investment policy and reviewed and approved for State ORP. Generally, funds with 12b-1 fees will be avoided where a comparable fund is available without 12b-1 fees. During the State ORP startup years, the investment providers will be permitted to retain the 12b-1 fees. After the State ORP startup years and when assets have grown sufficiently, 12b-1 fees must be immediately reimbursed to the participant's account. An exception to this requirement may be authorized if the State ORP investment provider charges no administrative fee, record keeping fee or mortality charges.

In no case will funds that charge 12b-1 fees in excess of 25 basis points be permitted. These funds are classified as load funds, and are not permitted in this plan.

Other Criteria

From those funds that meet the basic requirements previously outlined for fund selection, in making a final selection the State ORP may consider, but is not limited to, the following criteria:

- Assets under fund management.

- Tenure of fund management.
- Stability of fund organization
- Management, 12(b)-1, and other fees.
- Relationship with recognized fund family.
- Administrative requirements of the Plan and Plan Administrator.
- Number of funds in Plan with same or similar fund family relationship.
- Fund performance as measured by various quantitative factors, some examples including but not limited to returns-based style analysis, Beta, Sharpe Ratio, sector distribution or duration.

II. PERFORMANCE MEASUREMENT AND RETENTION GUIDELINES

Measures of Performance

The overall performance of each fund will be determined by, but is not limited to, analyzing the following measures of performance versus established benchmarks.

Information Ratio

Information Ratio = (Fund Return – Benchmark Return)/Standard Deviation of Excess Return

The Information Ratio measures the consistency by which a fund beats its benchmark. When comparing Information Ratios of funds to each other or to a benchmark, a higher ratio is indicative of more consistent excess returns.¹

Standard Deviation is a measure of the uncertainty or volatility of returns. The statistical definition of Standard Deviation is "the square root of the variance of the distribution of returns around the mean return." The larger the standard deviation, the larger the variance (or volatility) of the fund's returns or excess returns and, thus, the higher the risk for the participant.

By using the Information Ratio Benchmark as a primary fund evaluation tool, the State ORP is able to rank funds within the fund categories that have been established. These categories of funds were chosen to be the most optimal for investment allocation purposes. The funds, which are offered within each of these categories, may be managed with differing levels of aggressiveness or conservatism. The Information Ratio Benchmark will identify which funds have delivered the best return for the level of risk incurred in delivering those returns. This creates a level playing field for comparing funds within an asset class category. For new funds being selected, the Information Ratio of fund offerings must meet or rank in at least the top 40% of Information Ratios in the Morningstar universe of retail funds in the same asset class and investment style over at least two of the most recent 1, 3 and 5 year periods, ending with the most recently reported calendar quarter. Appropriate benchmarks will be determined by

¹ Under normal market conditions, the Sharpe Ratio may be applied as a measure of risk-adjusted return. When asset classes underperform the risk free rate, as has been experienced the last few years, the result of the test is not meaningful. As an alternative measure the information ratio test is superior under these conditions, though it too has a weakness. In the event that, in a given style universe, the benchmark outperforms the median fund, and also the fund under consideration or review underperforms the median fund, this test fails as well. In these circumstances the ORP and/or its consultant may of necessity apply some measure or measures of subjective judgment.

Morningstar and/or the State ORP's investment consultant. For fund retention guidelines, the 50th percentile, or median, of all Information Ratios for the same time frame will apply.

The Information Ratio Benchmark will be used as follows:

Above Benchmark	Below Benchmark
Fund Information Ratio exceeds the Information Ratio Benchmark in at least two or more of the most current 1, 3 and 5-year periods, ending with the most recently completed calendar quarter.	Fund Information Ratio does not meet the Information Ratio Benchmark in at least two or more of the most current 1, 3 and 5-year periods, ending with the most recently completed calendar quarter.

Historical Return

The applicable return history of the fund is compared to investment products offered in the same category of the Morningstar retail fund universe. For new funds being selected, the returns of all the applicable investment products offered are aggregated and the Benchmark Return is considered to be above the top 40% of funds in the same category. For fund retention guidelines, the returns of all the applicable investment products offered are averaged and the Benchmark Return is considered to be the 50th percentile, or median, of all such returns.

Funds are classified as above or below the return benchmark as follows:

Above Benchmark	Below Benchmark
Fund Return exceeds the Benchmark Return in at least two or more of the most current 1, 3 and 5-year periods, ending with the most recently completed calendar quarter.	Fund Return does not meet the Benchmark Return in at least two or more of the most current 1, 3 and 5-year periods, ending with the most recently completed calendar quarter.

Morningstar Star Rating

The Morningstar Star Rating is a quantitative measure of risk-adjusted returns. This three-year rating shows how well a fund has balanced risk and return relative to other funds in the same Morningstar Category.

The Star Rating compares funds within their peer group, incorporating risk-adjusted returns. The Star Rating compares funds to appropriate peers; for instance, a small-cap value fund is measured against all other small-cap value funds. The risk adjusted return is calculated by subtracting a risk penalty from each fund total return, after accounting for all loads, sales charges, and redemption fees.

If the Morningstar Star Rating for a fund is 5 Stars, it is classified in the top 10% of its peer group. A Category Rating of 4 places the fund in the next 22.5% of its peer group. If the Morningstar Category rates a fund as a 3, then it is classified in the next 35% of its peer group. A Category Rating of a 2 ranks the fund in the next 22.5% of its peer group and a Category Rating of 1 means the fund is classified in the bottom 10% of its peer group. For multi share class funds, each share class is counted as a fraction

of a fund within this scale and rated separately, which may cause slight variations in the distribution percentages. This accounting prevents a single portfolio in a smaller category from dominating any portion of the rating scale.

The Star Rating is best used as an initial screen to identify funds worthy of further research, those having performed well on a risk-adjusted basis relative to their peers. New funds being selected must have an equivalent Morningstar Star Rating of four stars (above average) or five stars (highest rating). An institutional fund without a Morningstar rating can be assigned the Morningstar rating of its retail copy. For retention purposes, funds in the State ORP should maintain an equivalent Morningstar Star Rating of three stars or higher.

Retention Guidelines

Requirements for Stock and Bond Funds

At least annually and as of December 31st of each year or as deemed necessary by the SC Retirement Systems, the State ORP's independent investment consultant will complete a comprehensive performance analysis. This analysis will include, but is not limited to, written analysis of the measures of performance versus established benchmarks within each respective fund class and investment style. The analysis will reflect for each fund its percentile of performance for the Information Ratio and historical return. In addition, the analysis will include the most recent Morningstar Star Rating and other pertinent data. The independent investment consultant will be selected by the SC Retirement Systems.

Existing Funds will be considered for retention based on the following criteria:

1. Primary Benchmarks:

A. Fund performance exceeds the return of the independent benchmark appropriate for the respective asset class and category for at least two of the most recent 1, 3 and 5-year periods, ending with the most recently completed calendar quarter. For index funds, the fund return must match its index benchmark within a range of plus or minus 0.50% (domestic equity) and 0.75 % (domestic fixed income) for the 1, 3 and 5 year periods ending with the most recently completed calendar quarter. Inflation-linked Bond Funds that are managed in a passive or "buy and hold" strategy will be considered index funds for retention analysis purposes.

B. Fund performance exceeds the 50th percentile return of the Morningstar universe of retail funds in the same respective asset class and category over the same time periods previously referenced. This benchmark test will not be applied to investments in index funds, lifestyle funds, or inflation-linked bond funds as previously referenced.

Above Benchmark	Below Benchmark
Fund Return exceeds the Benchmark Returns in at least two or more of the most current 1, 3 and 5-year periods, ending with	Fund Return does not meet the Benchmark Returns in at least two or more of the most current 1, 3 and 5-year periods, ending with the

the most recently completed calendar quarter.	most recently completed calendar quarter.
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2. Secondary Benchmarks:

A. The Information Ratio in at least two of the most recent 1, 3 and 5 year periods, ending with the most recently completed calendar quarter must exceed the 50th percentile Information Ratio of the Morningstar universe of retail funds (as defined previously) in the same asset class and investment style.

B. The fund will maintain a Morningstar Star Rating of three Stars (average), four Stars (above average) or five Stars (highest rating). An institutional fund without a Morningstar Star Rating can be assigned the Morningstar Star rating of its retail copy.

3. Fund Status:

Funds will be classified as “Good” or placed on a “Watch List” according to the following table.

Primary Benchmarks	Secondary Benchmarks	Status
Both Pass	N/A	Good
Only 1 Passes	Only 1 Passes	Good
Only 1 Passes	Both Fail	Watch List
Both Fail	N/A	Watch List

In addition to these quantitative assessments, the State ORP and/or its investment consultant may also place funds on this “Watch List”, or may remove funds from the program entirely, at their discretion based on qualitative factors. Examples of these qualitative issues or events include, but are not limited to, the following:

- significant changes in firm ownership and/or structure,
- loss of one or more key personnel,
- significant loss of clients and/or assets under management,
- shifts in the investment firm’s philosophy or process,
- changes in the State ORP’s investment strategy eliminating the need for a particular style or strategy,
- any other issue or situation of which the State ORP and/or its investment consultant become aware that is deemed material by them.

The State ORP and/or its investment consultant will notify the providers of the Watch List status of their respective offerings at least annually.

Requirements for Guaranteed Annuities and/or Stable Value Funds

It is expected that returns from these vehicles will exhibit little volatility, with the exception of periodic resets of credited interest rates. The State ORP reserves the right to review any product offered by any

service provider at any time; however, there are circumstances that may warrant an in-depth performance and product review in order to make a retention/termination decision. Specifically with regard to Guaranteed Annuity and/or Stable Value Accounts, these circumstances include but are not limited to the following:

- Rating agency announcement of review notifications for potential downgrades of credit quality.
- Failure to maintain:
 - rating criteria as previously outlined.
 - overall portfolio characteristics (e.g., duration and credit quality) as previously outlined.
 - adequate liquidity to provide for transfers and withdrawals as per contract terms.
- Failure to credit interest to participant accounts as per contract terms.
- Sale or announcement of intent to sell underlying portfolios by issuers.
- Over a market cycle, generally thought to be periods of 3 to 5 years, it is expected that these products will earn a return or yield comparable to that generated by the Lehman Intermediate Government/Credit Index and/or the Lehman Aggregate Index, but with significantly less return volatility than that of the respective index.

III. PROCEDURE FOR CLOSING FUNDS

Funds on the “Watch List” will be handled in the following manner:

- 1) All Funds will be rated at least annually.
- 2) Once a fund is placed on the watch list and remains there for a continuous period of twenty-four months the vendor will close the fund.
- 3) After a fund is closed to participants by the investment provider, new contributions will not be permitted. Notice will be given to participants that the fund is closed to new contributions. A replacement fund may be added following the criteria in this investment policy and after authorization by the SC Retirement Systems. The participants will have up to nine months to transfer their investments from the closed fund to another investment option. At the end of the nine-month period to transfer funds, any money remaining in the closed fund will be automatically transferred to the replacement investment option or the approved default fund as determined by the SC Retirement Systems.

Investment Policy Changes

The SC Retirement Systems retains the right to modify the above investment policy as deemed necessary to meet the fiduciary responsibility for the plan and to the participants.

Approval Date

The Director of the SC Retirement Systems approved this policy on the date shown below:

x Peggy J. Boykin 10-14-03
Date

Glossary

Agency Security – a U.S. government-issued security that was not issued by the Treasury Department and may be backed by the full faith and credit of the United States depending upon the issuing agency.

Agent – any individual or entity acting on behalf of another.

Alpha – the premium an investment portfolio earns above a certain benchmark (such as the Standard & Poor's 500 Index). A positive alpha indicates the investor earned a premium over that index.

American Depositary Receipts (ADRs) – certificates issued by a U.S. bank and traded in this country as domestic shares. The certificates represent the number of foreign securities the U.S. bank holds in that security's country of origin. ADRs make trading foreign securities easier by eliminating currency exchange, legal obstacles, foreign ownership transfers, and the need to trade on a foreign exchange.

Asset Allocation Decision – choosing among broad asset classes such as equities, fixed-income securities and real estate.

Asset Backed Security (ABS) – bonds that are securitized by receivables – such as credit cards, second mortgages, automobile loans, equipment leases, airline ticket receivables, boat and recreational-vehicle loans, unsecured personal loans, automobile and truck dealer inventories, and mobile homes. These securities are typically structured to offer high credit ratings.

Basis Point – one one-hundredth of one percent. For example, an addition of 40 basis points to a yield of 7.50 percent would increase the yield to 7.90 percent. Basis points are normally used when quoting yields or returns, alpha, or fees paid to investment managers.

Bear Market – a market in which prices decline sharply against a background of widespread pessimism, growing unemployment and business recession. It is the opposite of Bull Market.

Benchmark – a gauge in the securities market by which investment performance can be measured, such as the Standard & Poor's 500 Index.

Beneficiary – the present or potential recipient of a benefit.

Bid and Asked – the highest price an investor will pay for a security (bid), or the lowest price someone will sell a security (asked).

Brokerage Commission – payment for administrative costs of trading securities; the cost of execution.

Bull Market – an advancing securities market. It is the opposite of Bear Market.

Commingled Fund – a pooling of funds from multiple investors, managed as one account. The client owns units in the pool, similar to a mutual fund.

Core Equity Style - Market-oriented managers select stocks representative of the broad equity markets. While some may take meaningful positions in growth or value stocks from time to time, these managers exhibit no strong consistent bias to either style.

Core Fixed Income Style - Market-oriented managers select dollar-denominated, investment grade

bonds representative of the broad fixed income markets. While some may exhibit meaningful over- or under-weights to particular types of securities (e.g., treasuries, corporates, or mortgages), these managers exhibit no strong consistent bias to any type of security relative to index weights. In addition, these managers will generally maintain a duration of their portfolios that is very close ($\pm 25\%$) to that of the broad market.

Core-plus Fixed Income Style - Similar to Core Fixed Income Style, but may include allocations to high-yield and/or non-dollar denominated securities.

Diversification – spreading a portfolio over many investments to avoid excessive exposure to any one source of risk.

Duration – the average time to receipt of all the cash flows of a bond weighted by the present value of each of the cash flows. The duration value of the bond gives bond investors an indication of how interest rate changes will affect the bond's price. It is the percentage by which the bond's price will move, given a 100 basis point change in yield.

Efficient Market Hypothesis – a theory that in a free market, with competition for profits, all knowledge and expectations are accurately reflected in market prices.

Electronic Crossing Network – an increasingly popular and cost-effective means of trading securities where issues are traded by computer either intra-day or overnight. These strategies will help to reduce or eliminate the market impact of trading and brokerage commissions.

Equity Investment – claims held by the residual owners of a firm. May also be referred to as common stock. Investments in Real Estate and certain Private Markets classifications may also be considered equity.

Fiduciary – one who can exercise discretionary authority or can control important aspects of a pension plan's management.

Fixed Income Investment – a security issued by a borrower that obligates the issuer to make specified payments to the holder over a specific period. May also be referred to as "debt" or "bonds".

Foreign Stock – an international fund having no more than 10% of stocks invested in the United States.

Indexing – the organizing and weighting of a person's investments in line with one of the major market indices, such as the Standard & Poor's 500 Index. Also referred to as Passive investing.

Initial Public Offering (IPO) – the first time an equity securities issue is available for the public to buy.

Large Cap Stocks – equity securities of companies with market capitalization in excess of \$10 billion.

Leverage – in investments, this is the control of a large amount of money by a smaller amount of money, such as buying on margin. In finance, this is the relationship of debt to equity on a company's balance sheet in the form of the debt/equity ratio.

Lifestyle Funds – Lifestyle Funds are typically balanced or hybrid funds that hold a mix of asset

classes. They are designed for various risk profiles and time horizons, generally based on the career stage of an individual. Lifestyle Funds are typically offered in a series based on these stages – early, mid or late career – with attendant risk profiles – such as aggressive, moderate, and conservative. Investors may then choose a fund based on the amount of time they have to reach their savings goal.

Limited Partnership – a partnership with at least one of the partners holding only a limited liability. Commonly utilized in the Private Equity asset class.

Marked-to-Market – revaluation of securities to market value.

Micro Cap Stocks – equity securities of companies with market capitalization up to \$200 million.

Mid Cap Stocks - equity securities of companies with market capitalization ranging from approximately \$2 billion to \$10 billion.

Money Market Fund – an open end mutual fund that invests in highly liquid, safe securities and pays money market rates of interest.

Mortgage-Backed Security (MBS) – a debt instrument with a pool of real estate loans as the underlying collateral. These financial instruments are designed to channel funds from the capital markets to the mortgage borrowers.

Offer – to present for sale.

Private Placement – issuance of debt or equity directly to an investor or investors.

Proxy – an instrument empowering an agent to vote for a shareholder.

Qualitative Analysis – a subjective analysis of a security, with the judgment not based on financial information, such as that found on a balance sheet or income statement. Instead, the judgment may be based on such issues as labor relations.

Quantitative Analysis – an analysis of a security, with the judgment based on financial information such as that found on a balance sheet or an income statement.

Rebalancing – realigning the proportions of assets in a portfolio as needed.

Risk – the uncertainty of outcome or the likelihood of a loss.

Separate Account – funds managed on an individual account basis, no pooling with other investors. The client owns the securities.

Short-Term Investments – Any fixed income investment with less than one year to maturity.

Small Cap Stocks – equity securities of companies with market capitalization ranging from \$200 million to approximately \$2 billion.

Soft Dollars – the value of goods or services that brokerage houses supply to investment managers "free of charge" in exchange for the investment managers' business.

Spread – the difference between the bid price and the ask price. May also be referred to as the difference between yields of various fixed income securities relative to the yields on U.S. Treasury obligations.

Standard Deviation – a measure of the degree to which an individual probability value varies from the distribution mean. The higher the number becomes, the greater the risk.

Total Return – interest or dividend income plus any realized or unrealized capital gain (or loss) on an investment, net of any capital contributions or distributions from the corpus.